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STATE FOR EAP/CM  
STATE PASS TO HUD SECRETARY JACKSON

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TAGS: [ECON](#) [EFIN](#) [PREL](#) [PTER](#) [EINV](#) [KIPR](#) [HK](#) [CH](#) [MC](#) [SENV](#)  
SUBJECT: MACAU SCENESETTER FOR HUD SECRETARY JACKSON

¶1. (SBU) Summary: The U.S. Consulate General Hong Kong warmly welcomes your visit to Macau next week. U.S. interests in Macau have increased tremendously since 2002, when Macau liberalized its gaming market. The U.S. is now one of the largest investors, behind only Hong Kong and mainland China. Major U.S. casino and resort operators, such as Wynn, MGM, and Sands, are opening casinos, hotels and convention facilities at a rapid pace. This U.S. financial presence has also caused the American citizen population in Macau to double in the past two years. The Macau Special Administrative Region (MSAR) is now depending on gaming to grow the economy, fill government coffers, and create jobs. This rapid development is driving social change and straining the MSAR's political, bureaucratic, and regulatory systems. Major U.S. interests in Macau include the expansion of democracy and the protection of human rights; urging the Macau Special Administrative Region Government (MSARG) to address trafficking in persons; continued vigilance against money laundering and other illicit financial activities; responding to fallout from the Banco Delta Asia/North Korea issue; and ensuring the sustainable economic development of Macau within the "one country, two systems" model. END SUMMARY.

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Economic Boom  
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¶2. (SBU) Macau's rapid economic growth can be traced to the MSARG's 2002 decision to end the long-standing gaming monopoly of Stanley Ho's Sociedade de Jogos de Macau (SJM). Macau now effectively has six separate casino licensees - three concession holders (SJM, Galaxy and Wynn) and three sub-concession holders (MGM, Las Vegas Sands and PBL/Melco). At the end of 2006, SJM ran 17 of Macau's 24 casinos, Hong Kong's Galaxy Resorts had five gaming facilities, Las Vegas Sands had one casino (the largest in the world) and U.S.-based Wynn Resorts had one casino. MGM and Pansy Ho (Stanley's daughter) are jointly building a casino on the Macau peninsula.

¶3. (SBU) In March 2007, Macau's gaming revenues surpassed those of the Las Vegas Strip. Mainland Chinese visitors comprise over 50% of visitors to Macau. Gross gaming revenue in Macau for calendaryear 2007 is estimated to rise to approximately S\$8.0 billion.

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The Cotai Strip  
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¶4. (SBU) The Cotai Strip, a recently-constructed landfill area between Macau's Coloane and Taipa islands, will soon become the enter of Macau's tourism industry. Cotai is slated to host 16 mega-resorts and have 60,000 hotel rooms by

2009, more than the 40,000 currently in Hong Kong and the 11,000 currently in Macau. Las Vegas Sands owns phase one of the Cotai Strip and plans US\$11 billion in investments there.

Its first resort, the Venetian Macau will open in the fall at a cost of US\$2.3 billion. The Venetian Macau will house 3,000 hotel rooms, a 1.2 million square-foot exhibition and convention center, and one million square feet of retail space, making it the largest shopping mall in Asia. Twelve major international hotel groups plan to operate hotels and casinos in the Cotai Strip. The Conrad (Hilton), Four Seasons, Galaxy, Holiday Inn, Inter-Continental, Raffles, St. Regis, Shangri-La, Sheraton, Starwood, Traders and the Venetian will all open facilities in the next few years.

15. (SBU) Macau hopes to diversify beyond gambling by branding itself as a regional convention and exhibition center. When Macau's new casinos, hotels and convention centers open, it should have 71,000 hotel rooms, enabling it to handle 38 million visitors annually. To make this growth sustainable, the MSARG will need to make important policy decisions concerning transportation, health care, migration/labor, energy, and the environment.

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Banco Delta Asia  
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16. (SBU) The Banco Delta Asia case -- wherein the U.S. Treasury determined that a weakly regulated local bank had been exploited by North Korea -- exposed Macau's financial and regulatory systems' vulnerabilities to money laundering by criminals and rogue regimes alike. If Macau is to successfully upgrade its banking and financial services sector, it will have to ensure that its legislation and

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supervisory personnel are robust enough to prevent similar future abuses of the territory and its institutions.

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Human Trafficking  
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17. (SBU) The MSARG was ranked "Tier 2 Watch List" in the State Department's 2007 Trafficking in Persons Report, as it was in the 2006 report. The State Department's anti-trafficking office (G/TIP) accepted the Consulate's recommendation that Macau remain Tier 2 Watch List, but stressed the need for the Macau government to take steps to avert a Tier 3 ranking in 2008. G/TIP's judgment reflected the Macau government's failure to acknowledge a trafficking in persons problem or take any noticeable measure -- even simple first steps -- to combat trafficking. In recent weeks, however, the MSARG has committed to take steps to combat this crime.

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Corruption  
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18. (SBU) The massive infusion of money into Macau may create opportunities for financial malfeasance. In December 2006, Transportation and Public Works Minister Ao Man-long was arrested for accepting bribes. Hong Kong's Independent Commission Against Corruption (ICAC) reportedly uncovered that Ao was moving large amounts of funds through Hong Kong and handed that information over to Beijing and Macau. Ao's arrest shows that mainland China's anti-corruption drive also extends into the MSAR. Macau's Commission Against Corruption functions independently, reports directly to the Chief Executive and is charged with investigating acts of corruption and fraud. Moving forward, the question is how Macau's political culture and legal system will adapt to the new economic environment and curb both official and private-sector corruption.

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Economic/Social Concerns  
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¶9. (SBU) Concerns exist that rapid economic growth will tax the capabilities of Macau society and the MSARG to adapt to and absorb change. Some have questioned whether the MSARG has the expertise and wherewithal to promote rapid economic growth and development, while at the same time promoting necessary reforms and governing in a transparent manner. Observers worry that some MSARG officials are making decisions in the interest of promoting rapid growth, while ignoring important regulations regarding public tender procedures, licensing requirements, environmental impact, and zoning or building limitations.

¶10. (SBU) Many young Macanese have forsaken or altered their education for relatively well-paid jobs in casinos. Not only has this trend reduced the talent pool for the MSARG and local small/medium private enterprises, it also has created a growing wealth gap. Housing prices have increased significantly. These sorts of dislocations have led to more vocal public protests in Macau, particularly among the less skilled, middle-aged people who have not received the benefits of Macau's transformation and are less able to adapt to the new economic realities. Recent economic growth already has outstripped the supply of both skilled and unskilled labor. Nonetheless, some sectors of the Macanese public strongly oppose the importation of labor. For the past two years, clashes have broken out with police during the annual May 1 (International Labor Day) activities, with labor and immigration issues contributing to the anger of the demonstrators.

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Health Care & Infectious Diseases  
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¶11. (SBU) Macau's health care system is coping with the territory's quick economic expansion, rapid population growth, and large influx of tourists. While existing health care facilities are able to provide preventive care to local residents, health care officials acknowledge that Macau's crisis response capabilities must be expanded quickly, particularly due to the threat of Avian Influenza and other emerging infectious diseases. Macau lacks the technical expertise of Hong Kong and largely depends on it for information on emerging infectious diseases and how to develop response strategies. Macau plans to follow Hong

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Kong's lead in responding to an Avian Influenza (AI) or any other pandemic. Macau also needs to build up its emergency response capabilities, particularly in the Cotai region. Tuberculosis, HIV/AIDS and dengue fever remain immediate public health concerns.

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Environment  
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¶12. (SBU) Macau's air quality is worsening due to manufacturing in Guangdong province, emissions from the transportation sector and localized diesel electricity production. Macau's drinking water supply is almost completely dependent on tributaries of the Pearl River, which face problems with pollution and excessive salinity. The Macau Environmental Council (EC), a government body charged with monitoring the condition of the environment, has neither regulatory nor law enforcement powers. The Macau Special Administrative Region Government (MSARG) recognizes the need to create a body with true regulatory and enforcement capabilities, but appears to lack the technical expertise and political will to do so, possibly out of fear that it could slow down short-term growth.

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Transportation & Other Infrastructure Issues  
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¶13. (SBU) The MSAR must expand its transportation infrastructure. Plans are afoot for an inner-city light train system, a regional rapid rail system, the expansion of the airport, helicopter and ferry terminals, as the gaming and entertainment industries are drawing in more tourists and workers to Macau. The MSARG will have to focus intensely on the territory's infrastructure needs just to keep up with estimated future growth. Macau receives its water and electricity from the mainland; the area of Guangdong adjacent to Macau also is growing rapidly, raising concerns about maintaining steady supplies of these resources.  
Cunningham